

# Saints, sinners and the rise of the responsible investor



### WHAT'S QUICKER, CIRCUMNAVIGATING THE WORLD OR COMPLETING THE QUESTIONNAIRE FOR THE CARBON DISCLOSURE PROJECT?

A jumbo jet would be back in time for supper while you were still puzzling over question 4.1, the anticipated physical impacts of climate change.

Welcome to the question-hungry world of what used to be called Socially Responsible Investing and is now referred to as Responsible Investing (RI).

It would be easy to dismiss this often irritating niche activity of the financial community were it not so important. Our *In Context* fall bulletin explains why you should take RI seriously.

### WELCOME

Our occasional bulletins are linked to a continuing conversation on our website where we explore the issues that matter most to our clients as they look to extract maximum value from their corporate sustainability programs. In keeping with our transatlantic capabilities, our bulletins alternate between U.K. and U.S. spelling and punctuation. This edition conforms to U.S. style.

### CONTACTS

Helping you deal with investors is but one of our corporate sustainability strategy and communications services that we have provided to leading multinationals since 1997. For more information:

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RI has become a force for reform in business. Originally a saintly pursuit of church groups and charities to avoid sinful stocks (alcohol, gambling, tobacco), RI has broadened its remit and now influences investments worth some \$5 trillion, according to a joint study by Booz & Company and Robeco.

In 2009, the *Financial Times* reported a 27 percent growth in RI funds and a rise of assets under management by nine percent.

RI's maturity has meant a rising tide of time-consuming questionnaires and demands to report detailed environmental, social and governance data. Prioritizing can be tough. We set out a two-step strategy to excellent RI relations:

**Step 1:** Understand RI needs and motivations.

**Step 2:** Target your response aggressively.

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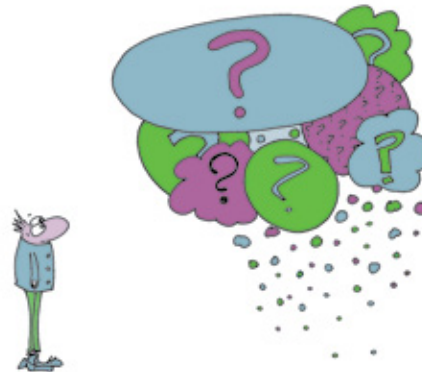
#### WHY LISTEN TO RESPONSIBLE INVESTORS?

- Analysts know that environmental and social issues affect business performance. They want to understand your strategy for managing these risks and opportunities.
- Confidence in your management team can be influenced by how you engage with RIs.
- Listening to RIs is good stakeholder relations. They can alert you to issues before they become wider concerns.

RI is a form of investing that considers a much broader range of environmental, social and governance (ESG) issues than traditional investing. RI investors are often active and engage companies to extract information, pressing for change in management practices.

No matter how annoying many listed companies find this activism, RI is here to stay:

- The mainstreaming of RI has begun with financial information providers, such as Bloomberg and Thomson Reuters, adding ESG data to their analytics. Bloomberg now has ESG data on its influential Terminal (see case study) and has acquired clean energy data leader New Energy Finance; Thomson Reuters has bought Asset4 and Point Carbon; and RiskMetrics has acquired Innovest Strategic Advisors and Boston-based KLD.
- The UN's Principles for Responsible Investment (PRI), an investor initiative that requires ESG issues to be incorporated into investment strategies, has attracted more than 700 signatories. They represent assets worth \$18 trillion.
- A group of 140 investors recently filed a resolution urging BP to review its planned investment in potentially polluting Canadian oil sands. They cited the company's failure to fully consider its exposure to future carbon prices.



#### CASE STUDY...

##### What Bloomberg did

In 2009, Bloomberg introduced environmental, social and governance (ESG) data to its 300,000 terminals used by the global financial community for essential investment information.

Bloomberg provides about 120 ESG variables for analysts. To source the information, the company researched published data and also approached around 20,000 companies in 73 countries with data requests. Adequate information came in from about 3,500, and Bloomberg is approaching the most capitalized and heavily traded for further ESG data.

Bloomberg is confident that demand for ESG data will balloon. "Eleven percent of assets under management are socially responsible," says Emil Efthimides, Manager of ESG Services. "Now the other 89 percent will get a chance to see that 11 percent. Maybe they'll dabble in it or even request that information from companies. It will become a virtuous cycle."

Stephen Hine, Director of Responsible Investment Development at the UK-based researcher EIRIS, adds: "Investors are asking more questions about risks and opportunities. The underlying assumption is that ESG issues are important not just in themselves but also as business development issues."

# A brief history of responsible investment

Three distinct phases can be detected (with a little overlap):

## 1. SAINTS AND SINNERS:

Investors apply a negative screen to exclude companies and sectors (arms, pornography, tobacco...) from their portfolios, accepting the risk of lower returns to keep their investments saintly.

## 2. BEST IN CLASS:

Investors apply positive screening to pick stocks that perform best on ESG and financial issues, often engaging with the companies to urge better management of ESG.

## 3. MAINSTREAMING:

RI begins to escape the saintly ghetto as more mainstream investors start to use ESG in their analysis and investment models.



### ESG GROWS FAST

The breadth and coverage of ESG data have expanded hugely in the past decade, according to Chris McKnett, Vice President, Senior Product Engineer at State Street Global Advisors. “Asset managers are trying to be more proactive and are getting on the front foot [with ESG data],” he says.

WPP

FRAN BUTERA

DIRECTOR OF INVESTOR RELATIONS

“The lines are blurring between RI and mainstream investors and that is encouraging.”

BLOOMBERG

CURTIS RAVENEL

DIRECTOR OF SUSTAINABILITY

“ESG data is now built into our analytics and tools. We know that users of sustainability reports struggle to connect ESG data to a company’s strategy. Our goal is to make ESG data part of the analysis. Making ESG data available on our 300,000 terminals in use around the world is an important step.”

CITIGROUP

VAL SMITH

VP CORPORATE SUSTAINABILITY

“SRI firms have a big impact on the workstream of our Citizenship teams, but they don’t yet have a big impact on the way we do business. I think that is changing as mainstream analysts begin to ask questions on ESG topics.”

## TWO STEPS TO EXCELLENT RI RELATIONS

### STEP 1:

# Understanding needs



LIMITED RESOURCES MAKE IT HARD TO RESPOND TO CONSTANT INFORMATION REQUESTS. IT'S WISE TO UNDERSTAND WHO'S ASKING FOR WHAT.

The financial community is made up of many players. Pension funds are the largest responsible investment (RI) **asset owners**. They're joined by, among others, endowment funds, charities, churches and local governments. **Asset managers** look after other people's money for a fee. Some are passive and follow an index (such as those from Dow Jones and the *Financial Times*). Others are active and base their choices on research and engagement with companies. Indexers and managers use information provided by **researchers** and **information providers**.

## ASSET OWNERS

Identify asset owners with holdings in your company. Most large quoted companies will have RIs among their major share owners. Seek them out. Three of the largest include ABP (the Netherlands government pension fund), CalPERS Investments (the largest U.S. pension fund), and the Norwegian State Pension Fund.

## ASSET MANAGERS

Give time to specialist RI asset managers. Passive funds track indexes, but active fund managers handpick their investments based on rigorous analysis. Make sure they know what you're up to. Big names include Henderson and F&C in the U.K., and Calvert, State Street and Boston Common in the U.S.

## RESEARCHERS AND INFORMATION PROVIDERS

Asset managers rely on independent researchers such as EIRIS, RiskMetrics, Trucost, and Vigeo. The Carbon Disclosure Project (CDP) has joined this list and is now extending its interests from carbon to water management. Analysts use these services – or published information such as that from the CDP – to strengthen their own research. That makes researchers very important. These are the groups that use your sustainability reports (see page 7) and often send you questionnaires.

The Dow Jones Sustainability Indexes are researched by the Switzerland-based Sustainable Asset Management (SAM).

Bloomberg and Thomson Reuters feed the ESG information needs of the financial community.

## WHAT DO THEY WANT?

Responsible investors want stable, long-term returns and they believe ESG issues influence the sustainability of companies. They want to know that companies are managing risks and seizing opportunities. Part of this involves investigating how well ESG issues are managed.

Companies need to demonstrate that:

- There's high-level commitment to understanding and managing ESG risks.
- They capitalize on ESG opportunities and reflect this in their business strategy.
- The right policies, processes and people are in place to deliver on their commitments.
- They set targets, measure performance and can demonstrate improvements.

## F&C INVESTMENT KARINA LITVACK

HEAD OF GOVERNANCE & SUSTAINABLE INVESTMENT

**“On [RI] questionnaires, companies should be selective and pick the ones that have the most traction and most transparency.”**

## VODAFONE CHRIS BURGESS

GROUP DIRECTOR OF CORPORATE RESPONSIBILITY

**“There is a definite change in the way the sector engages with us. There used to be fewer SRI teams, but the quality of engagement was generally higher. There is more box-ticking now. The number of questionnaires became almost unmanageable so we had to just stop doing many of them.”**

## EIRIS STEPHEN HINE

DIRECTOR OF RESPONSIBLE INVESTMENT DEVELOPMENT

**“The sort of people asking questions has changed. Since the foundation of the Principles for Responsible Investment, companies are as likely to get questions directly from pension funds as from specialist ratings agencies like EIRIS.”**



TWO STEPS TO EXCELLENT RI RELATIONS  
STEP 2:

# Target aggressively

YOU CAN'T ANSWER EVERY  
QUESTIONNAIRE – PRIORITIZE.



Responsible investors (RI) are not alone in their request for ESG information – suppliers and customers are asking for similar data. It's important to prioritize if you want to keep your sanity. Here's our list of those you must satisfy.

- 1 Information providers with the ability to broadcast your information. This means Bloomberg and Thomson Reuters.
- 2 Researchers with clout. EIRIS, Sustainable Asset Management (because they make the Dow Jones Sustainability Indexes); RiskMetrics; and the Carbon Disclosure Project.
- 3 Asset managers with the ability to influence the markets. Among these will be those that work for the Norwegian Pension Fund and CalPERS.
- 4 Any RI that holds your stock with the intent of pressing for change.

Decide which organizations you will respond to, and then be ruthless in your rejection of tangential requests.

### CASE STUDY...

#### An integrated answer

Nothing impresses responsible investors more than integrated sustainability and financial communications. It comes naturally to CEOs with a flair for sustainability. GlaxoSmithKline chief Andrew Witty is clear that increasing access to medicines results in higher profits. He also regularly explains to investors that ethics and transparency are essential to business success.

## USE YOUR SUSTAINABILITY REPORT AS A SHIELD

Your corporate sustainability report should be a one-stop shop for researchers and information providers. Make sure it conforms to best practice and provides:

- Company vision and strategy.
- Insight into how ESG issues are managed.
- Key performance indicators.

At the Ceres 2010 Roadmap for a Sustainable Future conference in May, Bloomberg's Curtis Ravenel noted that "report users struggle to connect report data to company strategy." Help users make the connection through clear presentation of ESG data. Use your website to house the detailed information and make it easy for analysts to do their job.

## ENGAGE THE ENGAGERS

The often naive questions from researchers and analysts can be frustrating, but it's wise to engage and keep up a dialog.

- Reach out to analysts and help them understand your business. It shows willingness to engage and gives you the chance to explain why some questions are irrelevant.
- Provide quality responses. If your strategy directs you to answer a questionnaire or engage with an analyst, do it well or not at all. It's a bit like taking an exam – you have to get the grader on your side.



## GLAXOSMITHKLINE JULIA KING

VICE PRESIDENT CORPORATE RESPONSIBILITY

**“We get frustrated by the very mechanistic approach where the same questions are asked of every sector even when they are not relevant to us.”**

# The responsible investment who's who



## Europe

### ASSET OWNERS

**Bengt Enge**, Chief Investment Officer, NBIM (manager of Norwegian Pension Fund)

**Marcel Jeucken**, Head of Responsible Investment, PGGM Investments

### ASSET MANAGERS

**Seb Beloe**, Head of SRI Research, Henderson Global Investors

**Emma Howard Boyd**, Head of SRI, Jupiter Asset Management

**Karina Litvack**, Head of Governance & Sustainable Investment, F&C Asset Management

**Rob Lake**, Head of Sustainability, APG Asset Management

**Colin Melvin**, Chief Executive, Hermes Equity Ownership Service and Chair of Principles for Responsible Investment

**Eckhard Plinke**, Head of Sustainability Research, Bank Sarasin

**Bas Rüter**, Managing Director, Triodos Investment Management

**Steve Waygood**, Head of Sustainability Research and Engagement, Aviva Investors

### RESEARCHERS

**Estelle Mirnesco**, SRI Department Director, Vigeo

**Peter Webster**, Chief Executive, EIRIS

### OTHER KEY FIGURES

**Matt Christensen**, Executive Director, Eurosif

**James Gifford**, Executive Director, Principles for Responsible Investment

**Nick Robins**, Head of Climate Change Centre of Excellence, HSBC

## US

### ASSET OWNERS

**Edward J. Grzybowski**, Senior Managing Director and Chief Investment Officer, TIAA-CREF (retirement fund for academic, medical, cultural and research professionals)

**Daniel F. Pedrotty**, Director, Office of Investment, American Federation of Labor and Congress of Industrial Organizations

**Anne Stausboll**, Chief Executive Officer, CalPERS

### ASSET MANAGERS

**Lauren Compere**, Co-Chair of the Social Investment Forum's International Working Group and the Emerging Markets Disclosure Project, Boston Common Asset Management

**Bennett Freeman**, Senior Vice President, Sustainability Research and Policy, Calvert Investments

**Joe Keefe**, President and CEO, Pax World Management Corp

**Christopher McKnett**, Vice President, Product Engineer, State Street Global Advisors

**Cheryl Smith**, Executive Vice President, Trillium Asset Management and Social Investment Forum Board Member

**Timothy Smith**, Senior Vice President, Walden Asset Management

### RESEARCHERS

**Hewson Baltzell**, Head of Product Development Team, RiskMetrics Group

**Peter D. Kinder**, President, KLD Research & Analytics, Inc.

### OTHER KEY FIGURES

**Jane Ambachtsheer**, Global Head of RI, Mercer

**Laura Berry**, Executive Director, Interfaith Center on Corporate Responsibility

**Mindy Lubber**, President, Ceres

## INDEXES

### Dow Jones Sustainability Index (DJSI)

Assets managed against the indexes:

**£8.5 billion**

Research conducted by:

**SAM Group**

Key figure:

**Rodrigo Amandi**, Managing Director, SAM Indexes

### FTSE4Good

Assets managed against the indexes:

**€10 billion**

Research conducted by:

**EIRIS**

Key figure:

**David Harris**, Director of Responsible Investment, FTSE Group

